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1977 Annual Report
Commonwealth Holiday Inns of Canada Limited

Aux actionnaires,

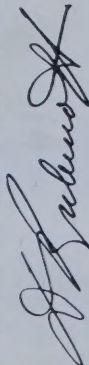
Les résultats d'exploitation pour le semestre se terminant le 30 avril marquent une augmentation substantielle par rapport au même exercice l'an dernier. Traditionnellement, cette période de l'année représente une perte pour ce commerce saisonnier. Cette année, la perte, après impôts, est de \$1,540,600 ou 33 cents par action ordinaire (net après dividendes sur actions privilégiées) comparativement à une perte de \$2,556,300 ou 52 cents par action ordinaire pour le même exercice l'an dernier.

Les fonds autogénérés d'exploitation pour ce semestre se sont élevés à \$2,938,500 ou 52 cents par action ordinaire (net après dividendes sur actions privilégiées) comparativement à \$313,600 ou 2 cents par action ordinaire pour le même exercice l'an dernier. Ce montant de fonds autogénérés d'exploitation est le plus élevé jamais atteint par la Compagnie dans toute son histoire pour cet exercice.

Tout semble indiquer que le tourisme provenant des États-Unis sera beaucoup plus important qu'en 1976 dans certaines régions, telle Toronto, où la Compagnie exploite un très grand nombre de chambres. Si tel est le cas, la Compagnie s'attend à ce que l'augmentation des résultats d'exploitation se prolonge jusqu'à la fin de l'année. Les exploitations du Royaume-Uni sont toujours à la hausse.

Il me fait plaisir d'annoncer la nomination de monsieur Albert E. Shepherd au poste de Directeur général de l'administration de la Compagnie. Il continuera d'assumer les responsabilités de Président-adjoint du conseil d'administration. Je continuerai d'occuper les postes de Président du conseil d'administration et de Président du comité administratif, de concert avec monsieur Shepherd, je continuerai d'apporter mon appui à la Compagnie en autant que cela me sera possible.

Au nom du conseil d'administration



D. Rubinoff

Président du conseil d'administration

Le 13 juin 1977

Inns in operation

British Columbia

Vancouver — Broadway
Vancouver — City Centre

Alberta

Edmonton
Lethbridge

Saskatchewan

Saskatoon — Downtown

Manitoba

Winnipeg — Downtown

Ontario

Kenora
Thunder Bay
Sault Ste. Marie

Sudbury
Windsor
Chatham
Sarnia

London — South
London — City Centre
London — City Centre Tower

Kitchener
Cambridge
Brantford
Hamilton
Burlington
St. Catharines
Oakville

Toronto — Downtown
Toronto — Don Valley
Toronto — Yorkdale
Toronto — East
Toronto — West
Toronto — Airport
Oshawa
Orillia

Barrie
Collingwood
Owen Sound
Huntsville

Peterborough

Kingston
Cornwall

Ottawa — Centre
Ottawa — Downtown

Quebec

Montréal — Longueuil
Montréal — Pointe Claire
Sherbrooke
Quebec City — Downtown

Nova Scotia

Halifax — Centre
Sydney

Michigan

Port Huron

New York

Grand Island —
Buffalo/Niagara

Caribbean

Antigua
Grenada
Barbados
St. Lucia
Port of Spain, Trinidad
Guadeloupe

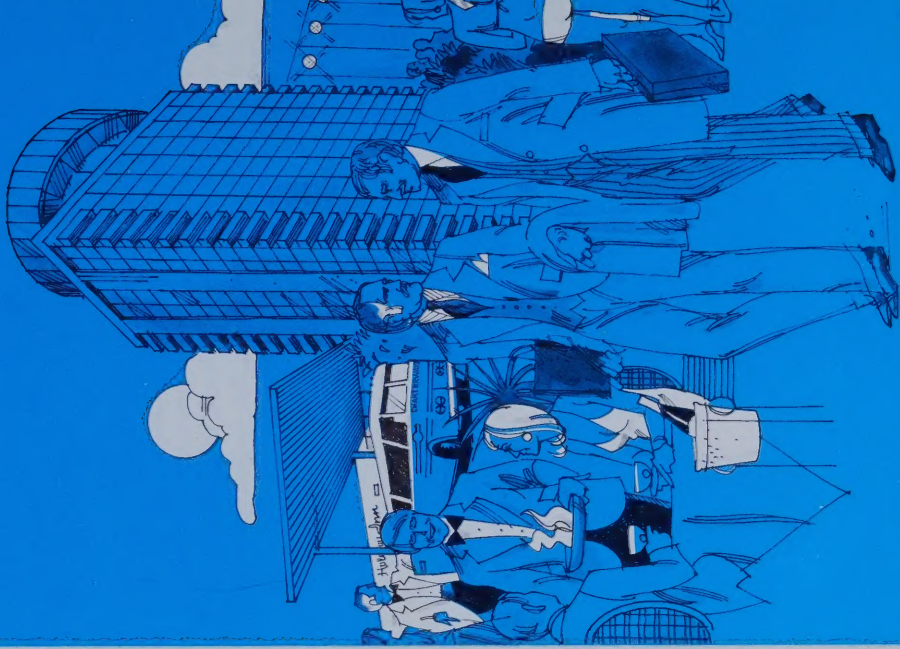
United Kingdom

Plymouth
London — Marble Arch
London — Swiss Cottage
Slough/Windsor
Bristol
Newcastle



COMMONWEALTH *Holiday Inns* OF CANADA LIMITED

for the six months
ended April 30, 1977



Six Months Ended April 30th

	\$1,540,600	\$12,556,300
(1,370,000)	(2,202,000)	
5,906,400	4,958,800	
(57,300)	113,100	
2,938,500	313,600	
4,994,800	6,094,600	
57,000	235,300	
7,945,300	6,643,500	

3,319,800	5,085,600
270,900	1,030,500
182,000	298,400
310,500	
9,973,800	3,698,700
53,300	32,100
200,000	200,000
14,310,300	10,345,300
(6,345,000)	(3,701,800)

3.723,500	(656,100)
<u>\$12.641,500</u>	<u>\$(4.357,900)</u>
Semestre se term. le 30 avril	
1977	1976
\$80,461,600	\$71,962,600
(2,910,600)	(4,758,300)
1,370,000	2,202,000

	(1,370,000)	\$11,540,600	(1,394,600)	(2,556,300)	
			(33)	(52)	
			2,938,500	313,600	
			.52	.02	
			5,317,731	5,317,731	
Semestre se term.	le 30 avri				
	1977			1976	

4,949,800	6,094,600
£7,000	335,300

3,319,800	5,085,600
270,900	1,030,500
7,945,300	6,643,500
3,000	233,300

182,000	298,400
310,500	

9,973,800	3,698,700
53,300	32,100

<u>14,310,300</u>	<u>10,345,300</u>
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Six Months Ended April 30th

<u>\$80,461,600</u>	<u>\$71,962,600</u>
(2,910,600)	(4,758,300)
1,370,000	2,202,000
(1,540,600)	(2,556,300)
(.33)	(.52)
2,938,500	313,600
.52	.02
5,317,731	5,317,731

Six Months Ended April 30th

	1977	1976
1. Total	100	100
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\$(1,540,600)	\$(2,556,300)
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(1,370,000)	(2,202,000)
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5,906,400	4,958,800
(57,300)	113,100

2,938,500	313,600
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4,949,800	6,094,600
57,000	235,300

7,945,300	6,643,500
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3,319,800	5,085,600
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270,900	1,030,500
182,000	298,400

310,500
0 673 800
2 608 700

3,973,800	3,698,700
53,300	32,100

200,000	200,000
44,340,000	40,245,000

14,310,300	10,345,300
<u>(6,365,000)</u>	<u>(3,701,800)</u>

(6,723,500)	(656,100)
<u>3,723,500</u>	

<u><u>\$ (2,641,500)</u></u>	<u><u>\$ (4,357,900)</u></u>
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Semestre se term. le 30 avril

<u>\$80,461,600</u>	<u>\$71,962,600</u>
(2,910,600)	(4,758,300)
1,370,000	2,202,000
(1,540,600)	(2,556,300)
(.33)	(.52)
2,938,500	313,600
.52	.02
5,317,731	5,317,731

Semestre se term. le 30 avri

1977	1976
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	\$	(1,540,600)		\$	(2,556,300)
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(1,070,000)	(2,000,000)
(1,000,000)	(1,000,000)

(1,370,000)	(2,202,000)
5,906,400	4,958,800

(57,300)	113,100
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2,938,500	313,600
4,949,800	6,094,600

57,000	235,300
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3,319,800	5,085,600
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270,300	1,030,500
182,000	298,400

310,500	3 698 700
9 973 800	

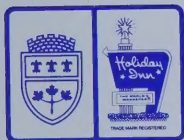
2,972,000	2,000,000
53,300	32,100

<u>200,000</u>	200,000
14 310 300	10 345 300

14,310,300	10,343,300
<u>(6,365,000)</u>	<u>(3,701,800)</u>

$$\begin{array}{r} 3,723,500 \\ \hline (656,100 \end{array}$$

<u><u>\$ (2,641,500)</u></u>	<u><u>\$ (4,357,900)</u></u>
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1977 Annual Report

Commonwealth Holiday Inns of Canada Limited

Financial Highlights

Year ended October 31, 1977

	1977	1976
Sales	\$175,363,861	\$156,374,192
Earnings before taxes and extraordinary item	\$ 4,476,779	\$ 1,108,101
Provision for income taxes	\$ 2,159,000	\$ 683,000
Earnings from operations	\$ 2,317,779	\$ 425,101
Dividends on preferred shares	\$ 400,000	\$ 400,000
Earnings available to common shareholders (before extraordinary item)	\$ 1,917,779	\$ 25,101
Per share (net of preferred dividends)	36¢	—
Extraordinary item*	—	\$ (3,500,000)
Earnings available to common shareholders (after extraordinary item)	\$ 1,917,779	\$ (3,474,899)
Per share (net of preferred dividends)	36¢	(65¢)
Cash flow from operations**	\$ 15,343,553	\$ 10,654,597
Per share (net of preferred dividends)	\$ 2.81	\$ 1.93
Working capital	\$ 4,009,061	\$ 3,723,524
Additions to plant and equipment	\$ 13,552,652	\$ 9,834,346
Total assets at year end	\$171,414,043	\$162,765,896

* Write-down of investment in Allied Innkeepers (Bermuda) Limited. See Note 3 to consolidated financial statements.

** Cash flow consists of earnings from operations plus charges which do not require an outlay of funds.

On peut se procurer l'édition française de ce rapport en écrivant au Secrétaire,
Commonwealth Holiday Inns of Canada Limited, 304 York Street, London, Ontario N6B 1P8.

Corporate Offices

304 York Street,
London, Ontario N6B 1P8

Regional Offices

Holiday Inn Swiss Cottage,
128 King Henry's Road,
London NW3 3ST, England

Cockspur House,
Nile Street,
Bridgetown, Barbados

Sales Offices

CANADA
Montreal, Quebec
Toronto, Ontario
Ottawa, Ontario
London, Ontario
Calgary, Alberta
Vancouver, British Columbia

UNITED STATES
New York, New York
Buffalo, New York

EUROPE
London, England
Frankfurt, Germany

CARIBBEAN
Bridgetown, Barbados

Contents

Financial Highlights	2
Corporate Information	2
Report to the Shareholders	5
Financial Statements	6
Auditors' Report	16
Ten Year Review	17
Directors and Officers	20
Inns and Innkeepers	23
Revenue by Source	24
Distribution of Rooms	24

Registrar and Transfer Agent

The Registrar for the common shares and the preferred shares is Canada Permanent Trust Company at its principal offices at Toronto, Montreal, London, Winnipeg, Regina, Calgary and Vancouver. The Transfer Agent for the common shares and the preferred shares is The Royal Trust Company at its principal offices at Toronto, Montreal, London, Winnipeg, Regina, Calgary and Vancouver.

Printed in Canada





Report to the Shareholders

On behalf of the Board of Directors, we submit the audited financial statements of the Company for the fiscal year ended 31 October, 1977.

The year produced significant improvement in the Company's earnings and cash flow. Net earnings were \$2,317,779 this year compared with \$425,101 earned from operations in 1976. The latter amount was reduced by an extraordinary item resulting in a reported loss of \$3,074,899 for 1976. Cash flow from operations this year rose to \$15,343,553 from \$10,654,597 last year.

Room occupancy for the Company's hotels in total increased by three percentage points and average room rates rose by 10.8 percent with these gains for the most part being in the United Kingdom.

The Canadian hotel industry generally remained depressed during 1977. Business travel did not improve as a result of a low level of economic activity and capital expenditures in urban Canada. American tourism, except into Toronto, again diminished in volume. These factors, coupled with an over-supply of rooms in many of the larger cities, adversely affected the industry. Despite these negative factors, the Company's Canadian operations improved modestly over the prior year, for the most part as the result of the continued maturing of the many hotels we opened in 1974 and 1975.

Operations in the United Kingdom, where the Company operates six hotels, were highly satisfactory in 1977. A favourable exchange rate in sterling currency together with the attraction of the Jubilee of Her Majesty the Queen contributed greatly to increased foreign and domestic tourist travel into London. Occupancy levels for our hotels outside London improved substantially as well, by reason of the buoyant tourist season and an increase in business travel which England enjoyed throughout the year.

The Company's transportation division, Charterways Co. Limited, returned a satisfactory profit in 1977 and shows every promise of making a significant contribution to earnings in future years. This division now operates over 1,000 school buses, scheduled and charter bus transportation out of Toronto to International Airport and a profitable warehousing subsidiary. Charterways was acquired in 1975 and has proved to be a very good acquisition.

During the first half of our fiscal year ending 31 October, 1978 we do not expect to see a strong recovery in the Canadian economy generally nor improved operating results from our Canadian Inns. The sharp decline in the exchange rate of the Canadian dollar in relation to U.S. currency, however, may well improve tourism from that country during the second half of our year. As well, Canadian travellers, we believe, will find hotel accommodation in the United States to be at least as expensive for comparable rooms in comparable cities as it is in Canada, quite apart from the exchange rate. This is

confirmed by room rates recently published by American hoteliers who are enjoying high occupancy, notwithstanding the increased rates. We will not know to what extent we will profit from this until the second half of our year, but it should be beneficial.

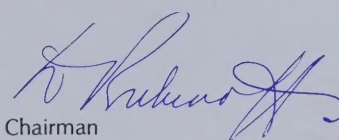
In England, we expect operations for the fiscal year ending 31 October, 1978 to be at least as profitable, and probably better, than last year. The transportation division should be substantially more profitable.

On the last day of the fiscal year, the Company completed the purchase of its Inn at Plymouth, England which had previously been operated by us as tenants under a lease. Shortly thereafter, we purchased the Inn at Swiss Cottage in London which had also formerly been leased.

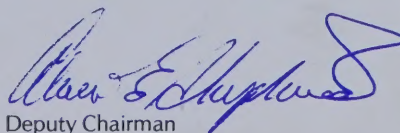
The Company entered into an agreement to sell all its Caribbean properties to a group of Trinidadian investors and to retain management. The completion of the transaction was subject to conditions which have been fulfilled and also subject to obtaining a large number of consents from governments and governmental agencies. Such consents have not yet been received. If they are obtained the transaction will close. If they are not obtained the hotels will be sold individually. Business in the area has very substantially improved and several of these Inns are expected to be profitable this year.

The improved financial results we have reported were achieved in the face of economic conditions which for the most part were adverse, particularly as they relate to the Canadian hotel industry. On behalf of the Board, we wish to express appreciation to the officers and employees of the Company and its subsidiaries for their conscientious efforts during the past year, without which these results would not have been possible.

February 15, 1978



Chairman



Deputy Chairman



President

Consolidated balance sheet

October 31, 1977 (with comparative amounts for 1976)

ASSETS	1977	1976
Current:		
Cash	\$ 10,854,382	\$ 9,388,080
Accounts receivable	9,168,895	8,077,297
Inventories — at the lower of cost and net realizable value	2,785,757	2,617,227
Prepaid expenses	3,625,799	2,845,950
	26,434,833	22,928,554
Fixed — at cost — Notes 2 and 12		
Land	7,583,141	7,617,900
Buildings, leaseholds, etc.	98,387,976	93,360,531
Furnishings and equipment	33,443,840	31,516,618
Transportation equipment	19,276,283	17,430,350
	158,691,240	149,925,399
Less accumulated depreciation and amortization	34,292,572	27,514,380
	124,398,668	122,411,019
Major renovations (net of amortization to date of \$2,621,011 in 1977 and \$2,025,360 in 1976)	5,852,261	3,745,794
	130,250,929	126,156,813
Investments — Note 3	5,757,294	4,294,235
Deferred costs and other assets — Note 4		
Opening and development costs	1,483,916	2,970,285
Cost of borrowing	1,672,284	1,512,720
Franchises — Holiday Inns, Inc.	1,456,324	1,547,474
Transportation operating authorities and goodwill	4,358,463	3,355,815
	8,970,987	9,386,294
	\$171,414,043	\$162,765,896

(See accompanying notes)

Consolidated statement of earnings

Year ended October 31, 1977 (with comparative amounts for 1976)

	1977	1976
Sales and other revenues		
Hotel division	\$152,545,618	\$137,175,064
Transportation division	22,818,243	19,199,128
	\$175,363,861	\$156,374,192
Earnings from operations before charges as set out below	\$ 42,660,487	\$ 36,812,916
Rent	16,703,356	15,391,025
Depreciation and amortization	8,913,296	7,741,991
Amortization of deferred costs	1,700,520	1,634,399
Interest (including interest on long term debt of \$10,724,308 in 1977 and \$10,545,759 in 1976)	10,866,536	10,709,400
	38,183,708	35,476,815
	4,476,779	1,336,101
Equity in losses of affiliate — Note 3		228,000
Earnings before taxes on income and extraordinary item	4,476,779	1,108,101
Taxes on income	2,159,000	683,000
Earnings before extraordinary item	2,317,779	425,101
Extraordinary item: Write down of investment in Allied Innkeepers (Bermuda) Limited to estimated realizable value net of income tax thereon of \$2,000,000		3,500,000
Net earnings (loss) for year	\$ 2,317,779	\$ (3,074,899)
Earnings per share — Note 13		
Earnings before extraordinary item	\$ 0.36	\$ 0
Net earnings (loss) for year	\$ 0.36	\$ (0.65)

(See accompanying notes)

Consolidated statement of retained earnings

Year ended October 31, 1977 (with comparative amounts for 1976)

	1977	1976
Balance beginning of year	\$ 8,193,581	\$11,668,480
Net earnings (loss) for year	2,317,779	(3,074,899)
	10,511,360	8,593,581
Dividends on preferred shares	400,000	400,000
Purchase of share warrants — Note 7	500,000	
	900,000	400,000
Balance end of year	\$ 9,611,360	\$ 8,193,581

Consolidated statement of contributed surplus

Year ended October 31, 1977 (with comparative amounts for 1976)

	1977	1976
Balance beginning and end of year	\$ 4,304,109	\$ 4,304,109

(See accompanying notes)

Consolidated statement of changes in financial position

Year ended October 31, 1977 (with comparative amounts for 1976)

	1977	1976
Source of funds:		
<i>Operations - consisting of:</i>		
Earnings before extraordinary item	\$ 2,317,779	\$ 425,101
<i>Add non-fund items —</i>		
Deferred income taxes	2,159,000	683,000
Depreciation and amortization	10,613,816	9,376,390
Other	252,958	170,106
	15,343,553	10,654,597
Mortgages and other long term loans	15,709,579	14,232,113
Sale of fixed assets	195,240	472,661
	31,248,372	25,359,371
Application of funds:		
Purchase of fixed assets and major renovations	13,552,652	9,834,346
Investments	1,463,059	2,303,637
Deferred costs and franchises	260,731	639,938
Transportation operating authorities and goodwill	1,024,482	540,936
Reduction of long term debt	13,709,137	7,193,585
Minority interest in net loss of subsidiary for year	52,774	67,319
Purchase of share warrants	500,000	
Dividends on preferred shares	400,000	400,000
	30,962,835	20,979,761
Increase in working capital	285,537	4,379,610
Working capital (deficit) beginning of year	3,723,524	(656,086)
Working capital end of year	\$ 4,009,061	\$ 3,723,524

(See accompanying notes)

Notes to the consolidated financial statements

October 31, 1977

1. Significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of the company, its wholly owned subsidiaries (principally Charterways Co. Limited) and its partly-owned subsidiary, Allied Inn Keepers of Trinidad and Tobago Limited (65%). The accounts of Allied Innkeepers (Bermuda) Limited have not been consolidated based on the company's decision to liquidate its investment in this company — see Note 3. All acquisitions of subsidiary companies have been accounted for by the purchase method and all material inter-company transactions have been eliminated in consolidation.

The minority interest in the loss of the partly-owned subsidiary (Allied Inn Keepers of Trinidad and Tobago Limited) has been reflected in the accompanying consolidated statement of earnings as a reduction of rent expense related to the property leased from this subsidiary (1977 — \$52,774; 1976 — \$67,319). In conjunction with the agreement for the sale of its investment in Allied Innkeepers (Bermuda) Limited, referred to in Note 3, the company has also agreed to sell its investment in Allied Inn Keepers of Trinidad and Tobago Limited and its investment in the operating assets of the Trinidad Inn. The completion of this sale will have no material affect on the financial position of the company or its operations.

Foreign exchange

The accounts of foreign subsidiaries and those of the company to be settled in foreign currencies are translated into Canadian dollars at current rates of exchange except for non-current assets, long term debt and depreciation and amortization which are translated at historical rates of exchange and sales and expenses (other than depreciation and amortization) which are translated at average rates of exchange for the year. Losses, which result from translation, are written off against consolidated income and translation gains are deferred except to the extent of such losses previously recorded. Realized gains or losses on transactions in foreign currencies are recorded in income.

Fixed assets

The company follows the policy of capitalizing interest and property taxes in respect of owned Inns and costs incurred which are not paid for by the owners in respect of leased Inns during the construction of any of its Inns. Additionally the company capitalizes rent, interest, insurance and property taxes and reduces depreciation and amortization during a period not exceeding twelve months following the date on which rooms at newly constructed Inns are first available to be rented for both owned and leased Inns (subject to predetermined maximum amounts) in accordance with a scale established by reference to occupancy. In both cases, expenditures in respect of leased Inns are carried as leasehold costs.

Depreciation and amortization is computed on a straight-line basis (except as otherwise shown) at the following annual rates:

Hotel assets:		
Buildings and leaseholds	*2½ %	
Paving	4	
Furnishings and equipment	9	
Swimming pools	10	
Transportation assets		
School buses	13½ %	
Highway coaches	8½	
Other depreciable assets —		
Buildings	5 - 10%	(diminishing balance)
Equipment	20	(diminishing balance)
Other automotive equipment	various appropriate rates	
Improvements to leased premises	varying rates over term of leases	

*A higher rate is applied to leaseholds, if, at the time of the expenditure, the remaining term of the lease plus one renewal period is less than 40 years.

Gains or losses on the disposal of school buses and highway coaches which occur in the normal course of business are classified to depreciation expense.

Major renovations

The costs of major renovation programs at the Inns, consisting primarily of replacement of furnishings and equipment and major maintenance, are deferred and amortized over a sixty month period.

Deferred costs and other assets

Costs incurred in connection with the development and opening of Inns are deferred and amortized over the first sixty months of operations. Costs incurred in connection with obtaining long term debt are deferred and amortized over the term of the respective borrowing. Commencing in 1976, franchises are amortized over twenty years. Transportation operating authorities and goodwill arising on the purchase of transportation operations are carried at effective cost based on values determined by management as at August 31, 1975, the effective date of acquisition of Charterways Co. Limited, with subsequent additions at cost. Transportation operating authorities and goodwill as at August 31, 1975 are not amortized and subsequent purchases are amortized on a straight-line basis over forty years.

Deferred gains

Gains realized by the company on sale and leaseback transactions are deferred and transferred to income over the terms of the applicable leases.

Income taxes

Income taxes are provided on the basis of accounting income. Income taxes not currently payable, resulting from claiming for income tax purposes deferred costs as incurred, capital cost allowances in excess of depreciation and amortization and other timing differences, are credited to deferred income taxes. This account will be charged in those future years, when, as a result of the reversal of these timing differences, income taxes actually payable will be greater than the amounts provided for in those years.

2. Fixed assets

A major portion of the real estate, furniture and equipment and transportation equipment is pledged to secure mortgages and other long term debt.

The total of amounts carried as leasehold costs (net) in the accompanying consolidated financial statements amounts to \$12,572,000 (\$13,694,000 in 1976).

3. Investments

This consists of investments in Allied Innkeepers (Bermuda) Limited, particulars of which are set out below, and long term receivables which mature at varying dates to 1999.

	1977	1976
Allied Innkeepers (Bermuda) Limited:		
Ordinary shares — at cost	\$ 290,000	\$ 290,000
Debentures — at cost	6,911,054	6,911,054
Advances on open account	4,786,585	3,326,730
	11,987,639	10,527,784
Less reduction in carrying value of investment	8,148,292	8,148,292
	3,839,347	2,379,492
Mortgages, notes and debentures receivable	1,917,947	1,914,743
	\$ 5,757,294	\$ 4,294,235

During 1976, the company purchased all of the shares and debentures of Allied Innkeepers (Bermuda) Limited previously owned by other shareholders in order to proceed with its decision to liquidate its investment in Allied Innkeepers (Bermuda) Limited through the orderly sale of that company's operating Inns in the Caribbean. In connection therewith, the carrying value of this investment was written down to estimated realizable value and provision was made for the estimated carrying cost for the period pending liquidation. An estimated capital loss of \$980,000 (when realized for tax purposes), which will be available indefinitely to be applied to offset any future capital gains, has not been taken into account.

Currently, the company has entered into an agreement for the sale of its investment which, when completed, should realize an amount approximating current carrying value.

4. Deferred costs and other assets

Costs and accumulated amortization to date are set out below:

	Cost	Accumulated amortization	Unamortized balance October 31	
			1977	1976
Opening and development costs	\$ 5,303,010	\$3,819,094	\$1,483,916	\$2,970,285
Cost of borrowing	2,368,071	695,787	1,672,284	1,512,720
Franchises	1,608,324	152,000	1,456,324	1,547,474
Transportation operating authorities and goodwill	4,381,995	23,532	4,358,463	3,355,815
	\$13,661,400	\$4,690,413	\$8,970,987	\$9,386,294

Deferred costs which are fully amortized are eliminated from these accounts.

5. Long term debt

Long term debt outstanding at October 31, 1977 and 1976 consists of:

	1977		1976
	Payable within one year	Amount	
(a) Real estate mortgages payable: 7¾ %-12¼ % first, second and third mortgages due on varying dates from 1978 to 2006	\$2,586,073	\$87,388,297	\$77,025,204
Including payable in foreign currency U.S. \$50,011,958 (Cdn. \$49,955,481) T.T. \$ 4,867,118 (Cdn. \$ 2,399,846) U.K. £ 112,665 (Cdn. \$ 270,396)			

	1977		1976
	Payable within one year	Amount	
(b) Specific charge debt on transportation equipment	127,482	9,369,133	8,093,339 ^a
(c) Secured notes payable: 6¾ % secured notes maturing June 30, 1991, repayable semi-annually by payments of blended principal and interest of \$428,000 U.S. (secured by mortgages and first floating charge on certain property) (\$7,613,445 U.S.)	375,106	7,756,730	8,078,380
Deduct amount of secured notes assumed by Allied Innkeepers (Bermuda) Limited (\$1,549,481 U.S.) for which the company remains directly liable	76,341	1,578,642	1,644,105
	298,765	6,178,088	6,434,275
(d) Sinking fund debentures payable: 7½ % senior debentures maturing December 1, 1979 (sinking fund payment of \$100,000 in each of the years 1978 and 1979 and \$50,000 on maturity) 6% Series "B" subordinated debentures maturing June 30, 1979 (sinking fund payments of \$40,000 annually)	100,000	250,000	350,000
	40,000	80,000	120,000
	140,000	330,000	470,000

	1977		1976
	Payable within one year	Amount	
(e) Other secured debt:			
Repayment terms extending to 1982	800,000	3,567,784	11,873,403
(f) Unsecured notes payable due on varying dates from 1978 to 1987	395,915	1,959,440	3,108,355
Including payable in foreign currency U.K. £468,006 (Cdn. \$842,411)			
	<u>\$4,348,235</u>	108,792,742	107,004,576
Less payable within one year		4,348,235	4,560,511
		<u>\$104,444,507</u>	<u>\$102,444,065</u>

Long term debt repayments each year for the next five years are as follows:

1978	\$ 4,348,235	1981	\$20,274,651
1979	14,416,041	1982	17,824,972
1980	9,690,554		

In the above table, the normal instalment payments due in each year in respect of specific charge debt referred to below is shown as due in the next following year on the assumption that these agreements will be renewed annually.

Real estate mortgages:

Certain mortgages contain participation clauses which may increase interest payable thereon.

Specific charge debt:

Specific charge debt on transportation equipment includes \$5,510,918 which is payable under an agreement with a finance institution whereby the transportation subsidiary is not required to make normal monthly instalments as provided for under the conditional sales contracts until after its 1978 fiscal year and \$3,279,809 due to bankers on which the company may delay monthly repayments to a maximum cumulative period of twelve months. In the accompanying consolidated financial statements no amount is included as due within one year in respect of these amounts.

Other secured debt:

As security for this debt, the company has pledged its investment in Charterways Co. Limited and a debenture receivable for \$872,218 included in other investments.

Additional security:

Included in long term debt are amounts due to the company's principal banker in respect of which the company has pledged its accounts receivable and lodged as collateral security floating charge debentures totalling \$16,000,000 and \$7,500,000 on its assets and those of Charterways Co. Limited respectively.

6. Deferred income taxes

Deferred taxes were increased during the year by \$2,141,451, particulars of which are as follows:

Provision for taxes on income	\$2,159,000
Less actual taxes paid resulting from the re-organization of a subsidiary in 1976	17,549
	<u>\$2,141,451</u>

7. Capital

The preferred shares — Series A, are redeemable after April 29, 1979 at their par value plus a premium of \$1.50 if redeemed prior to April 29, 1982; \$1.00 if redeemed thereafter and prior to April 29, 1985; \$.50 if redeemed thereafter and prior to April 29, 1988; and without premium thereafter and will be convertible into common shares on or prior to April 30, 1979 on the basis of 3 common shares for each preferred share and thereafter to April 30, 1984 on the basis of 2½ common shares for each preferred share.

During the year, 250,000 share purchase warrants which would have expired June 30, 1978 were purchased for \$500,000 cash and were cancelled.

As at October 31, 1977, common shares are reserved as follows:

For issuance under share purchase warrants at \$8.00 per share (expiring November 1, 1984)	250,026	
For issuance to employees:		
at \$7.00 per share (expiring December 16, 1983)	27,300	
at \$2.75 per share (expiring May 7, 1986)	20,000	
at 10% below market price at date option is granted	2,700	50,000
For issuance to preferred shareholders under conversion privileges attaching to the preferred shares — Series A	600,000	
	900,026	

8. Restrictions on dividends

The trust indentures relating to the sinking fund debentures and the preferred shares — Series A contain various restrictions relating to the payment of dividends (other than dividends on the preferred shares — Series A), the redemption, cancellation or retirement of the company's shares or any other such distributions. As at October 31, 1977, under the most restrictive provision, \$2,854,876 was available for any such distributions.

9. Contingent liabilities

The company is contingently liable with respect to guarantees which at October 31, 1977 amount to \$346,400 and with respect to guarantees of lease payments relating to two Caribbean Inns over the next seventeen years amounting to \$9,600,000. These amounts are in addition to certain debt assumed by others which has been excluded from the consolidated balance sheet but in respect of which the company remains directly liable as referred to in note 5 (c).

The company is subject from time to time to various claims and disputes. As at October 31, 1977, there are no unsettled claims or disputes of a material nature against the company which have not been provided for or which, in the opinion of management cannot be settled without material cost.

10. Long term leases and fees

The company has entered into agreements to lease properties which are operated as Inns and as transportation terminals for periods varying from 2 to 87 years at total minimum rentals for the remaining terms of the leases of approximately \$297,000,000 (including amounts payable in foreign currencies which are translated at current rates of exchange). Total minimum fixed rentals per year as at October 31, 1977 approximate \$9,700,000. In the case of certain leases, increased rentals are payable if Inn revenues exceed specified amounts. Certain leases provide the company with options to purchase the leased properties.

Under its agreements with Holiday Inns, Inc. the company is required to pay royalties and assessments for advertising and other services which currently amount to approximately \$4,200,000 annually. It has also entered into miscellaneous equipment leases extending to 1986 which require annual rental payments of approximately \$2,100,000 (\$8,500,000 for the remaining terms of the leases).

Rentals, which are determined as a percentage of revenues with no minimum amounts, are excluded from the calculation of the above amounts.

Under the terms of the agreement relating to the 67/8% secured notes, the company has agreed not to permit minimum annual lease obligations on real property located in Canada and continental United States to exceed 12% of the net book value of the company's fixed assets located within these two countries. As at October 31, 1977, these minimum annual lease obligations were less than 12% of the net book value of the applicable fixed assets.

11. Statutory information

The aggregate direct remuneration paid or payable by the company to directors and senior officers amounted to \$804,600 for the year ended October 31, 1977 and \$773,000 in 1976. This remuneration includes directors' fees of \$19,000 for 1977 and \$19,500 for 1976.

The liability in respect of past service pension costs not provided for in the accompanying consolidated financial statements as at October 31, 1977 amounts to \$294,000 (based on the present value of future payments). The company intends to fund this liability by annual payments over the next twelve years.

12. Appraisal value of real estate

Fixed assets and major renovations related to the company's owned Inns which are included in the accompanying consolidated balance sheet at a net book value of \$81,800,000 have an appraisal value of \$122,300,000 based on appraisals of North American properties by Garth Webb & Associates Ltd. during 1976 with subsequent additions at cost and United Kingdom properties, which were not appraised, at net book value translated into Canadian dollars at current rates of exchange. These appraisal values represent depreciated replacement cost of all of the Inn assets at date of appraisal plus a value which has been attributed to the Holiday Inn franchises. Appraisal values do not reflect the income tax liability which would result from any sales of the company's owned Inns.

13. Earnings per share

Earnings per common share, after taking into account dividends on preferred shares, have been calculated on the weighted average number of common shares actually outstanding during the year. Fully diluted earnings per share have not been shown as the difference from earnings per share is immaterial.

14. Anti-Inflation legislation

The operations of the company in Canada are subject to mandatory compliance with the provisions of the federal Anti-Inflation Act which imposes controls on prices, profit margins, employee compensation and shareholder dividends until October 31, 1978.

Similar restraints on prices and profit margins apply to the company's operations in the United Kingdom.

AUDITORS' REPORT

To the Shareholders of
Commonwealth Holiday Inns of Canada Limited.

We have examined the consolidated balance sheet of Commonwealth Holiday Inns of Canada Limited as at October 31, 1977 and the consolidated statements of earnings, retained earnings, contributed surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

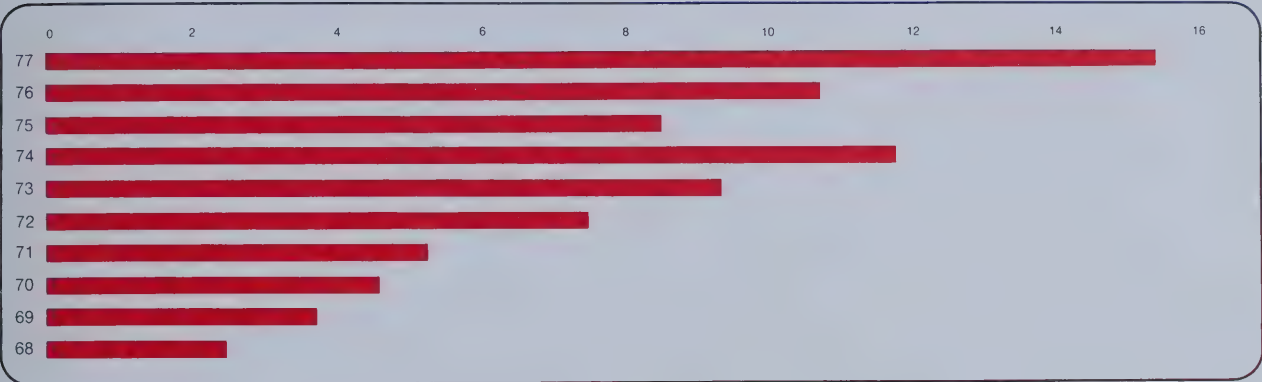
In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

London, Canada.
December 30, 1977.

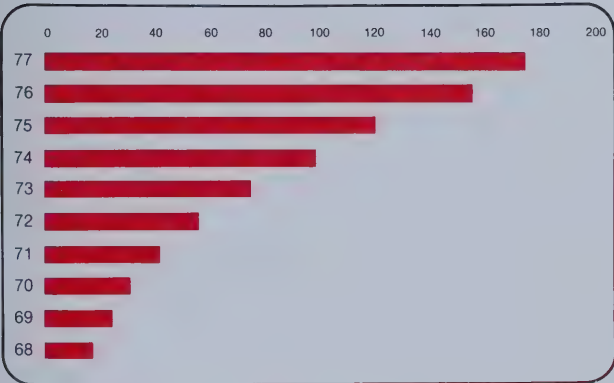
Clarkson, Gordon & Co.
Chartered Accountants.

Ten Year Review

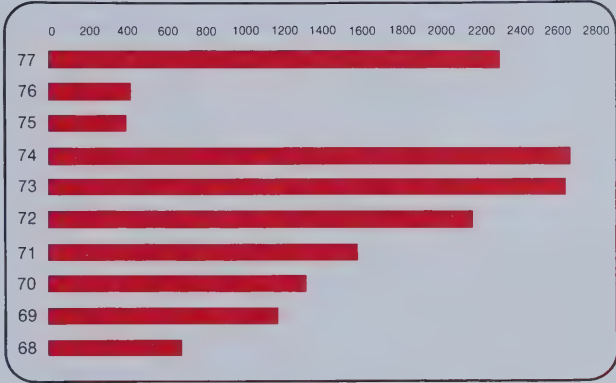
Cash Flow from Operations (millions of dollars)



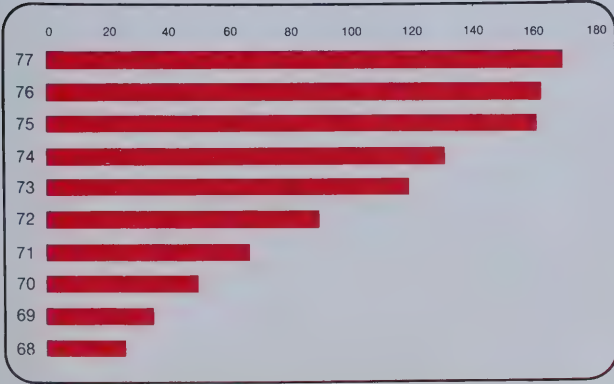
Sales (millions of dollars)



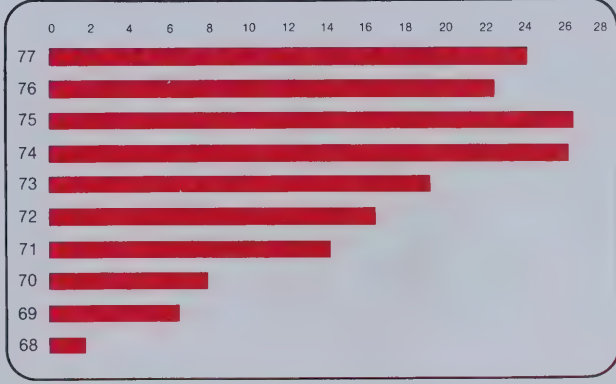
Earnings from Operations (thousands of dollars)



Total Assets (millions of dollars)



Shareholder's Equity (millions of dollars)



Ten Year Review

	1977	1976	1975	1974
Results for the year				
Sales	\$175,363,861	\$156,374,192	\$120,694,690	\$ 99,691,716
Earnings from operations*	2,317,779	425,101	412,869	2,660,114
Cash flow from operations**	15,343,553	10,654,597	8,521,979	11,550,997
Depreciation and amortization	10,613,816	9,376,390	6,007,494	5,343,665
Additions to plant and equipment	13,552,652	9,834,346	19,558,897	20,115,644
Year end position				
Working capital	\$ 4,009,061	\$ 3,723,524	\$ (656,086)	\$ 2,128,202
Fixed assets at cost	167,164,512	155,696,553	148,383,251	114,216,895
Total assets	171,414,043	162,765,896	160,361,169	133,335,462
Long term debt	104,444,507	102,444,065	95,405,537	73,560,663
Shareholders' equity	24,233,200	22,815,421***	26,290,320	26,240,367
General statistics				
Preferred shares outstanding	200,000	200,000	200,000	200,000
Common shares				
— outstanding	5,317,731	5,317,731	5,317,731	5,317,731
— reserved for conversion and options	900,026	1,150,026	1,150,026	1,150,026
— total outstanding and reserved	6,217,757	6,467,757	6,467,757	6,467,757
Inns in operation (actual at year end)	59	66	65	54
Rooms in operation (actual at year end)	12,331	13,746	13,590	10,909

*Before dividends on preferred shares and extraordinary item in applicable years.

**Cash flow consists of earnings from operations plus charges which do not require an outlay of funds.

***After write-down of investment in Allied Innkeepers (Bermuda) Limited. See Note 3 to consolidated financial statements.

1973	1972	1971	1970	1969	1968
\$ 75,909,304	\$56,842,588	\$43,023,663	\$33,258,870	\$25,431,843	\$17,654,355
2,640,594	2,165,200	1,590,265	1,329,927	1,176,597	641,659
9,412,941	7,659,588	5,499,835	4,620,120	3,876,526	2,374,762
3,587,535	2,785,576	2,183,758	1,850,381	1,378,633	1,038,103
28,523,564	22,989,803	18,460,338	10,953,791	10,996,052	7,652,687
\$ 62,027	\$ 1,955,621	\$ 1,996,390	\$ 715,779	\$ 183,514	\$ 592,003
100,035,544	75,103,854	58,823,319	43,803,822	32,918,085	25,025,112
119,591,737	89,516,127	66,242,716	49,571,132	36,030,849	27,051,643
70,568,181	54,322,311	38,725,915	32,332,548	22,593,209	21,545,396
19,337,197	16,593,178	14,399,365	8,065,857	6,783,473	1,932,481
—	—	—	4,000	4,150	4,250
5,317,731	5,307,881	5,305,156	2,427,013	2,411,488	2,050,063
550,026	564,676	517,401	3,964,237	3,959,137	3,949,937
5,867,757	5,872,557	5,822,557	6,391,250	6,370,625	6,000,000
46	39	34	27	23	17
9,255	7,400	5,754	4,164	3,499	2,558

Directors and Officers

Directors

David Rubinoff*
Chairman of the Board
Commonwealth Holiday Inns of Canada Limited,
London, Ontario

Albert E. Shepherd*‡
Deputy Chairman of the Board and
Chief Executive Officer
Commonwealth Holiday Inns of Canada Limited,
London, Ontario

Ernest B. Fletcher*
President and Chief Operating Officer
Commonwealth Holiday Inns of Canada Limited,
London, Ontario

Robert A. Rubinoff
Executive Vice President
Commonwealth Holiday Inns of Canada Limited,
London, Ontario

Ludwick M. Clymer
President
Holiday Inns, Inc.,
Memphis, Tennessee

Frederick W. P. Jones*‡
Financial Consultant
London, Ontario

Hon. John P. Robarts, P.C., Q.C.*‡
Barrister and Solicitor
Partner of Stikeman, Elliott, Robarts and Bowman,
Toronto, Ontario

David B. Weldon*‡
Chairman
Midland Doherty Limited,
Toronto, Ontario

Roy E. Winegardner
First Vice Chairman of the Board
Holiday Inns, Inc.,
Memphis, Tennessee

*Member of the Executive Committee

‡Member of the Audit Committee

Corporate Officers

David Rubinoff
Chairman of the Board

Albert E. Shepherd
Deputy Chairman of the Board and
Chief Executive Officer

Ernest B. Fletcher
President and Chief Operating Officer

Robert A. Rubinoff
Executive Vice President

Edward C. Campbell
Senior Vice President,
Operations Administrator

Raymond R. Yelle
Senior Vice President — Europe

Andre R. Pettigrew
Group Vice President and Treasurer

Philip Eprile
Vice President, Design and Planning

W. Harvey Gleason
Vice President and Controller

Charles H. King
Vice President and Secretary

John C. Logan
Vice President, Project Development

Jeanette M. Stevens
Assistant Vice President and
Assistant Secretary

Division Vice Presidents

Loris Arevian
Manager of Caribbean Operations

Alan Bolam
Assistant Controller

William G. Campbell
Director of Security

Charles A. Cline
Director of Personnel

Henry Drosse
Regional Director, Western Canada

Howard M. Field
Financial Controller, Europe

James A. Havers
Regional Director, Central Canada

William R. Janzen
Director of Information Systems

Anthony G. Malloy
Director of Internal Audit

Ian M. Marshall
Director of Advertising and
Public Relations

John C. Peskett
Director of Sales

John B. Pleasence
District Director

Frederick W. Sillett
Director of Insurance,
Assessments and Benefits

Theodore Smits
Director of Construction,
Planning and Maintenance

Joseph W. Whitfield
General Manager, Food and Beverage

George J. Zaritzky
Director of Financial Planning

Assistant Vice Presidents

William C. Anderson
Sales

Bert M. Bornhoeft
District Director

Gordon R. Langford
District Director

William Mathews
Project Development

Joseph V. Slomka
District Director

Shirley M. Smith
Personnel Manager

Henning Svendsen
District Director

Other Executives

District Directors — United Kingdom

Michael Beckley

Fritz Ternofsky

Robert J. Adley
Director of Marketing, Europe

Alan Peters
Comptroller, Caribbean

Philip Eprile Associates Limited Associated Innkeepers Supply Company

Philip Eprile, President

Kenneth Pharoah, Vice President
and General Manager

Syd Sobel, Vice President,
Director of Contract Food Facilities

Olive Williamson
Assistant Vice President,
Director of Renovations

Allied General Contractors

Syd Sobel, Vice President and
General Manager

Charterways Co. Limited

Albert E. Shepherd
Chairman and Chief Executive Officer

Bruce R. Dodds
President and Chief Operating Officer

Geoffrey P. Davies
Executive Vice President

Lloyd D. Monteith
Vice President, Finance

Ian M. Buckham
Controller



Holiday Inn



Inns and Innkeepers

CANADA

British Columbia

Vancouver - Broadway, *Ernie Heiland*
Vancouver - City Centre, *Jack Swoboda*

Alberta

Edmonton, *Michael Whittaker*
Lethbridge, *Wayne Beagrie*

Saskatchewan

Saskatoon, *Mijo Kralevic*

Manitoba

Winnipeg - Downtown,
John Vinkenbrink

Ontario

Kenora, *Dennis Webster*
Thunder Bay, *Alexander Zikakis*
Sault Ste. Marie, *Peter Pappoulas*
Sudbury, *Maurice Rouleau*
Windsor, *John Brezsnyak*
Chatham, *John Freier*
Sarnia, *Ralph Sabourin*
London - South, *Martin Larkin*
London - City Centre, *Robert Perrin*
London - City Centre Tower,
Robert Perrin
Kitchener, *Graham Rennie*
Cambridge, *Duncan Whillans*
Brantford, *Ted Isaac*
Hamilton, *Terry O'Brien*
Burlington, *Tony Miele*
St. Catharines, *Don Beard*
Oakville, *Eric Hall*
Toronto - Downtown, *Dokse Perklin*
Toronto - Don Valley, *Bernhard Kainer*
Toronto - Yorkdale, *Patrick Dignan*
Toronto - East, *Doug Escott*
Toronto - West, *Peter Pattera*
Toronto - Airport, *Greg Lambert*
Oshawa, *Gerry Kniehl*
Orillia, *Bruce Lee*
Barrie, *John Clarke*
Collingwood, *Robert Lauzon*
Owen Sound, *Doug Pincoe*
Huntsville, *David Wright*
Peterborough, *Len Moran*
Kingston, *Randy Pringle*
Cornwall, *Paul Stephens*
Ottawa - Centre, *Ralph Schmitz*
Ottawa - Downtown, *Grant Channing*

Quebec

Montreal - Longueuil, *Eduard Van Empel*
Montreal - Pointe Claire,
George van Eeghem
Sherbrooke, *Gerard St. Laurent*
Quebec City - Downtown, *Ray Ouellet*

Nova Scotia

Halifax - Centre, *Ingo Koch*
Sydney, *Greg Couthreau*

UNITED STATES

New York

Grand Island - Buffalo/Niagara
Paul Verciglio

INNKEEPERS AT LARGE

Mrs. M. A. Andersen
Rick Blum
Michael Prochazka

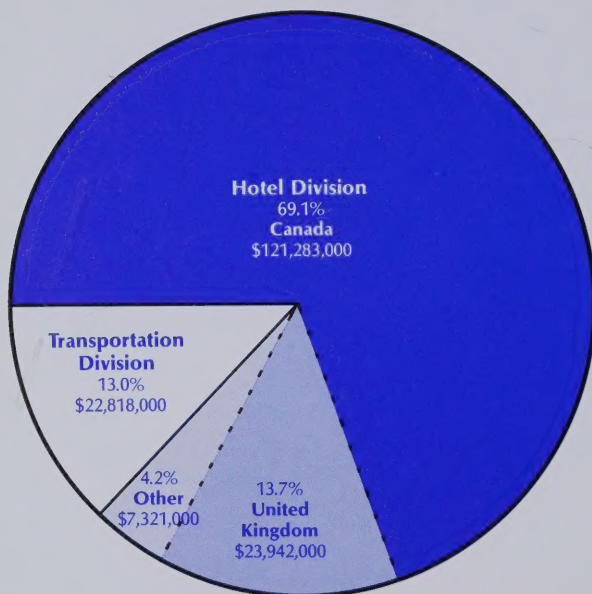
CARIBBEAN

Antigua, *Peter Van Alen*
Barbados, *John Wood*
Grenada, *Maurice Ribordy*
Port of Spain, Trinidad, *Kendall Dunn*
St. Lucia, *Alex Oostenbrink*

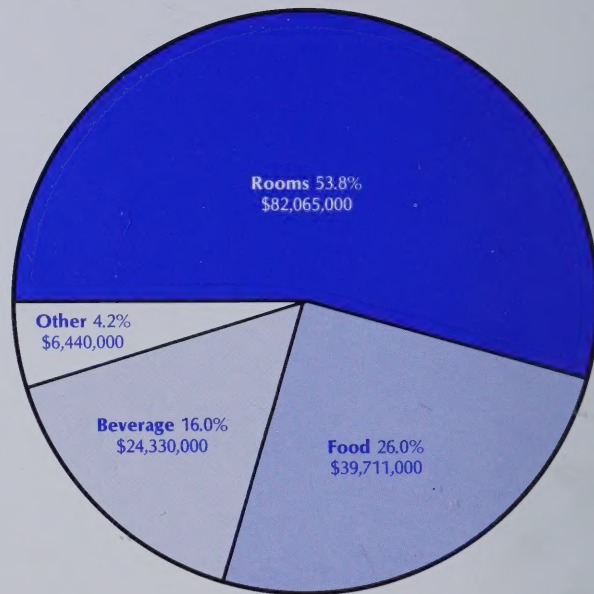
UNITED KINGDOM

Bristol, *Horst Berl*
London - Marble Arch, *Jan Hubrecht*
London - Swiss Cottage,
Jean Pierre Amberg
Newcastle, *Peter Taylor*
Plymouth, *Peter Nannestad*
Slough/Windsor, *Fritz Huntjens*

Revenue by source — 1977



Consolidated



Hotel Division

Distribution of rooms

Location	Owned	Leased	Managed	Total	%
Canada	3761	5347	547	9655	78.3
Ontario	2276	4345	185	6806	55.2
Quebec	432	465	-	897	7.3
British Columbia	454	200	-	654	5.3
Manitoba	399	-	-	399	3.2
Nova Scotia	-	-	362	362	2.9
Alberta	-	337	-	337	2.7
Saskatchewan	200	-	-	200	1.6
United States	270	-	-	270	2.2
United Kingdom	925	542	-	1467	11.9
Caribbean	-	-	939*	939	7.6
Grand Total	4956	5889	1486	12331	100.0
%	40.2	47.8	12.0	100.0	

*Assuming sale of the Company's interest in Inns located in Trinidad, Barbados, Grenada, St. Lucia and Antigua.



COMMONWEALTH *Holiday Inns* OF CANADA LIMITED